

Report
of the
Examination of
Equitable Reserve Association
Neenah, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
Connie L. O'Connell, Commissioner

Wisconsin.gov

121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

January 31, 2002

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Commissioner of Insurance
Commonwealth of Virginia
Post Office Box 1157
Richmond, VA 23218

Honorable Jim Poolman
Secretary, Midwestern Zone III, NAIC
Commissioner of Insurance
State of North Dakota
600 E Boulevard Avenue
Bismarck, ND 58505

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioners:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

EQUITABLE RESERVE ASSOCIATION
Neenah, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the society was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the society's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Society
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

The society is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, refunds to members, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The society was organized in 1897, as the Supreme Assembly of the Equitable Fraternal Union under the Wisconsin laws applicable to fraternal benefit societies. The present name was adopted on April 15, 1930, following a merger with the Fraternal Reserve Association in 1929. On December 19, 1949, Germania Mutual Life Insurance of Wisconsin merged into the society. On August 1, 1970, the society acquired The Royal League, a fraternal benefit society located in Berwyn, Illinois, through merger and reinsurance.

Equitable Reserve Association (ERA) is licensed as a fraternal benefit society under ch. 614, Wis. Stat. As a fraternal benefit society, ERA has no capital stock and exists solely for the benefit of its members and their beneficiaries.

The objectives of the society stated in the bylaws are:

First: To unite fraternally persons who have an interest consistent with objectives of this society.

Second: To give protection to each of its members, to improve their social condition and to render such help and financial aid to aged and sick members and to the widows and orphans of deceased members as shall be in keeping with fraternal relationship.

Third: To adopt such initiatory and lodge work and means of recognition as shall enable them to work in unison and harmony.

Fourth: To issue to its members policies of such nature, for such purposes and under such conditions as shall from time to time be determined according to these laws, and to establish and maintain by means of premiums payable according to such policies, proper funds as may be required therefore.

The society writes direct premium in the following states:

Wisconsin	\$5,104,229	79.8%
Ohio	300,005	4.7
Minnesota	240,726	3.7
Illinois	335,752	5.3
All others	<u>413,937</u>	<u>6.5</u>
	<u>\$6,394,649</u>	<u>100%</u>

The society is licensed in the following states:

Colorado	District of Columbia	Illinois
Indiana	Iowa	Kentucky
Michigan	Minnesota	Missouri
Nebraska	North Dakota	Ohio
Wisconsin		

The major products marketed by the society include interest-sensitive whole life and term products, adjustable whole life, annuities, traditional life, and disability income. The major products are marketed through 85 fieldworkers. Business is written primarily through a captive agency force, which currently consists of six agency managers, two assistant agency managers, and 41 agents. ERA has also been using the independent agency system to open up new markets not currently served by its captive sales force. Currently, ERA has contracts with two managing general agents and seven personal producing general agents.

The following chart is a summary of the net insurance premiums written by the society in 2000. The growth of the society is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Interest Sensitive Life	\$3,602,111	\$ 0	\$73,270	\$3,528,841
Other Life	1,235,745	0	79,221	1,156,524
Annuities	1,963,097	0	0	1,963,097
Accident and health	<u>133,927</u>	<u>0</u>	<u>55,687</u>	<u>78,240</u>
Total All Lines	<u>\$6,934,880</u>	<u>\$ 0</u>	<u>\$208,178</u>	<u>\$6,726,702</u>

III. MANAGEMENT AND CONTROL

Membership

ERA's supreme governing body is the general assembly, which is composed of the officers, the trustees, members of the standing committees, and elected representatives. Elected representatives must constitute not less than two-thirds of the general assembly. This general assembly meets once every four years to elect general officers and five to eight trustees to serve on the board of trustees for four-year terms. Non-employee members of the board of trustees must constitute a majority of total board membership.

Growth of Membership

Year	Members
1996	26,212
1997	25,734
1998	25,053
1999	24,570
2000	24,522

Board of Directors

The bylaws state, there shall be a Board of Trustees numbering not less than nine nor more than twelve members. Currently, the board of directors consists of nine members. The general officers of the association and the past president are ex-officio members of the board and have the same power and authority as an elected member of the board. The term of office shall be four years from the first day of the month next following such election, and until their successors are elected and qualified.

Trustees of the board receive a monthly fee of \$1,445 for their service on the board and \$150 to \$275 per day for committee meetings, depending on type of committee and chair status. General officers do not receive additional compensation for their duties as ex-officio board members.

Currently the board of directors consists of the following persons:

Name	Principal Occupation	Term Expires
Robert E. Miller	President, ERA	2002
George E. Reckin	VP & Treasurer, ERA	2002
Jane E. Tennant	Secretary, ERA	2002
Ernie G. Bellin	VP Fraternal Services, ERA	2002
Ronald H. Basken	Retired, ERA	2002
Stephen M. Hill	Investment Advisor	2002
Robert E. Mickelson	Retired, ERA	2002
Richard Pyburn	Certified Public Accountant	2002
Gerald G. Van Dyn Hoven	President & Owner Van Dyn Hoven	2002

Officers of the Society

The general officers include the president, one to four vice presidents, the secretary, and the treasurer. Officers are elected at the board's quadrennial meeting. The board may elect general officers or trustees to fill vacancies between meetings of the general assembly.

The officers serving at the time of this examination are as follows

Name	Office	2001 Compensation
Robert E. Miller	President	\$153,000
George E. Reckin	Vice President & Treasurer	105,600
Jane E. Tennant	Secretary	66,000

Committees of the Board

The society's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Robert E. Miller, Chair
George E. Reckin
Jane E. Tennant

Financial Audit Committee

Richard E. Pyburn, Chair
Gerald G Van Dyn Hoven

Executive Officer's Compensation Committee

Stephen M. Hill, Chair
Richard E. Pyburn

Management Committees of the Board

The society's bylaws allow for the formation of certain management committees by the board of directors. The management committees at the time of the examination are listed below:

Agency Committee

Robert E. Miller, Chair
George E. Reckin
Thomas J. Moore
Roger L. Zuleger

Underwriting Committee

George E. Reckin, Chair
Jane E. Tennant
Robert E. Miller
Terry L. Anderson

Claims Committee

George E. Reckin, Chair
Jane E. Tennant
Robert E. Miller
Terry L. Anderson

Planning Committee

Robert E. Miller, Chair
Julie G. Peterson, Planning Coordinator
Ernie G. Bellin
Jane E. Tennant
Thomas J. Moore
George E. Reckin
Terry L. Anderson
Bruce D. Dehn
Tracey R. Luka

Product Development Committee

Robert E. Miller, Chair
Roger L. Zuleger
George E. Reckin
Thomas J. Moore

Public Relations Committee

Robert E. Miller, Chair
Jane E. Tennant
Ernie G. Bellin

Fraternal Committee

Robert E. Miller, Chair
Jane E. Tennant, Secretary
Ernie G. Bellin

Standing Committees of the General Assembly

The following standing committees, made up of members, were appointed by the president and confirmed by the General Assembly to serve until the next General Assembly meeting in 2002:

Laws Committee

Lorren A. Schroeder, Chair
Stanley R. Riste
Raymond E. Zastrow

Auditing Committee

Frank P. Liska, Chair
Frederick W. Page
Patricia A. Burke
Leroy W. Liebert
Paul Macek

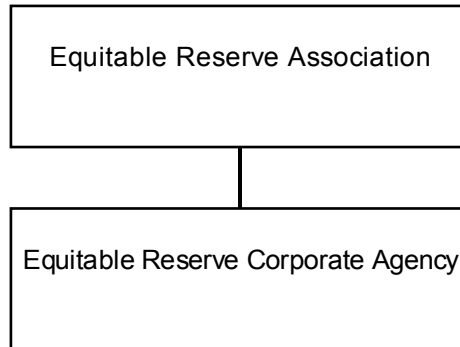
State of the Order Committee

Marvin D. Saugstad
Gertrude A. Scherr
Terrance F. Wilson
Alice M. Rausch
Steve Hooyman

IV. AFFILIATED COMPANIES

Equitable Reserve Association is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Equitable Reserve Association follows the organizational chart.

**Organizational Chart
As of December 31, 2000**



Equitable Reserve Corporate Agency

The society owns 100% of the common stock of the Equitable Reserve Association Corporate Agency, Inc. The corporate agency operates similarly to a managing general agent and is used to offer products to ERA's members, which the society currently does not offer. These products include long-term care, medicare supplement, major medical, and mutual funds. As of December 31, 2000, the agency's audited financial statement reported assets of \$39,238, liabilities of \$0, and unassigned funds of \$39,238. Operations for 2000 produced net income of \$11,000.

V. REINSURANCE

The society's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions. In addition to the contracts outlined below the company has a facultative agreement with Business Men's Assurance Company of America. Currently there is nothing ceded under the facultative agreement.

The society has reinsurance treaties that cede excess coverages to a small number of reinsurance companies on either a yearly renewable term or a 100% coinsurance basis. In both cases the society retains \$100,000 for individual lives, with less retained for substandard risks. For disability income certificates the society retains 50% of the risk not to exceed the maximum retention per occupational class (The highest of which is \$1,250).

The society's net retention limit for accidental death on any one risk is \$50,000. The society's net retention for waiver of premium is the same as the underlying life certificate.

The society's retention for "group" life business, which consists of coverage for employees, is two-thirds of each risk up to a maximum aggregate retention of \$100,000

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the society as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules, which reflect the growth of the society, NAIC Insurance Regulatory Information System (IRIS) ratio results during the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination, are noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

Equitable Reserve Association
Assets
As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$87,508,913	\$ 0	\$ 0	\$87,508,913
Stocks:				
Common stocks	1,193,291	179,802	1,000	1,372,093
Mortgage loans on real estate:				
First liens	47,236	0	0	47,236
Real estate:				
Occupied by the society	45,960	0	0	45,960
Certificate loans and liens	4,136,521	0	0	4,136,521
Cash and short-term investments	61,594	0	0	61,594
Reinsurance ceded:				
Amounts recoverable from reinsurers	0	456	0	456
Commissions and expense allowances due	0	2,116	0	2,116
Electronic data processing equipment	531,620	0	393,644	137,976
Life premiums and annuity considerations deferred and uncollected	0	536	0	536
Accident and health premiums due and unpaid	0	761	0	761
Investment income due and accrued	0	1,681,126	0	1,681,126
Other assets nonadmitted	283,268	0	283,268	0
Write-ins for other than invested assets	<u>80,792</u>	<u>0</u>	<u>80,792</u>	<u>0</u>
Total Assets	<u>\$93,889,195</u>	<u>\$1,864,797</u>	<u>\$758,704</u>	<u>\$94,995,288</u>

**Equitable Reserve Association
Liabilities, Surplus, and Other Funds
As of December 31, 2000**

Aggregate reserve for life certificates and contracts	\$70,317,691
Aggregate reserve for accident and health certificates	280,281
Supplementary contracts without life contingencies	336,482
Certificate and contract claims:	
Life	101,833
Accident and health	3,275
Refund accumulations	1,830,563
Provision for refunds payable in following calendar year:	
Apportioned for payment to December 31, 2000	600,000
Premiums and annuity considerations received in advance	327,518
Liability for premium and other deposit funds	200,827
Certificate and contract liabilities not included elsewhere:	
Interest maintenance reserve	351,502
Commissions to fieldworkers due or accrued	43,496
General expenses due or accrued	108,332
Taxes, licenses, and fees due or accrued	5,964
Amounts withheld or retained by society as agent or trustee	10,710
Amounts held for fieldworkers' account, including fieldworkers' credit balances	66,013
Remittances and items not allocated	43,245
Liability for benefits for employees and fieldworkers if not included above	41,687
Borrowed money and interest thereon	236,000
Miscellaneous liabilities:	
Asset valuation reserve	378,026
Aggregate write-ins for liabilities	
Deferred Compensation	20,284
Reinsurance Due & Unpaid	24,735
Asset valuation reserve	<u>1,180,955</u>
Total Liabilities	76,509,419
Unassigned funds (surplus)	<u>18,485,869</u>
 Total Liabilities, Surplus, and Other Funds	 <u>\$94,995,288</u>

**Equitable Reserve Association
Summary of Operations
For the Year 2000**

Premiums and annuity considerations	\$ 6,726,702
Considerations for supplementary contracts with life contingencies	20,384
Considerations for supplementary contracts without life contingencies and refund accumulations	165,618
Net investment income	6,063,063
Amortization of interest maintenance reserve	156,401
Commissions and expense allowances on reinsurance ceded	14,938
Miscellaneous income:	
Write-ins for miscellaneous income:	
Decrease in Reinsurance Due & Unpaid	(1,761)
Other Income	<u>19,305</u>
Total income items	13,164,650
Death benefits	1,386,605
Matured endowments	103,966
Annuity and old age benefits	2,518,375
Disability, accident, and health benefits including premiums waived	63,411
Surrender benefits	2,145,640
Interest on certificate or contract funds	17,690
Payments on supplementary contracts with life contingencies	130,403
Payments on supplementary contracts without life contingencies and of refund accumulations	320,611
Increase in aggregate reserve for life and accident and health certificates and contracts	1,731,897
Increase in reserve for supplementary contracts without life contingencies and for refund accumulations	<u>(75,709)</u>
Subtotal	8,342,889
Commissions on premiums, annuity considerations, and deposit-type funds	593,445
General insurance expenses and fraternal expenses	3,923,890
Insurance taxes, licenses, and fees	207,136
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	<u>309</u>
Total deductions	<u>13,067,669</u>
Net gain from operations before refunds to members	96,981
Refunds to members	<u>605,149</u>
Net gain from operations after refunds to members and before realized capital gains or (losses)	(508,168)
Net realized capital gains or losses	<u>30,898</u>
Net Income	<u><u>\$(477,270)</u></u>

Equitable Reserve Association
Cash Flow
As of December 31, 2000

Premiums and annuity considerations	\$ 6,695,832	
Considerations for supplementary contracts with life contingencies	20,384	
Considerations for supplementary contracts without life contingencies and refund accumulations	165,618	
Net investment income	6,151,426	
Commissions and expense allowances on reinsurance ceded	14,490	
Write-ins for miscellaneous income:		
Other Income	<u>19,305</u>	
Total		\$13,067,055
Death benefits	1,490,834	
Matured endowments	102,464	
Annuity and old age benefits	2,518,375	
Disability, accident and health benefits	33,553	
Surrender benefits	2,145,640	
Interest on certificate or contract funds	17,690	
Payments on supplementary contracts with life contingencies	130,402	
Payments on supplementary contracts without life contingencies and of refund accumulations	320,611	
Commissions on premiums, annuity considerations and deposit type funds	591,453	
General insurance expenses and fraternal expenses	3,918,681	
Insurance taxes, licenses and fees	207,274	
Refunds to members paid	<u>645,149</u>	
Total deductions		<u>12,122,126</u>
Net cash from operation		944,929
Proceeds from investments sold, matured, or repaid:		
Bonds	\$11,610,904	
Stocks	357,244	
Mortgage loans	<u>25,783</u>	
Total investment proceeds		11,993,931
Cost of investments acquired (long-term only):		
Bonds	12,303,758	
Stocks	492,697	
Real estate	<u>3,585</u>	
Total investments acquired		12,800,040
Net increase (or decrease) in certificate loans and liens		<u>7,061</u>
Net cash from investments		(813,170)
Cash provided from financing and miscellaneous sources:		
Borrowed money	(135,000)	
Other sources	<u>211,272</u>	
Total		76,272
Cash applied for financing and miscellaneous uses:		
Other applications		<u>261,976</u>

Net cash from financing and miscellaneous sources	<u>(185,704)</u>
Net change in cash and short-term investments	(53,945)
Reconciliation	
Cash and short-term investments, December 31, 1999	115,539
Cash and short-term investments, December 31, 2000	<u>\$ 61,594</u>

**Equitable Reserve Association
Compulsory and Security Surplus Calculation
December 31, 2000**

Assets (may include investment in insurance subsidiaries only to the extent that the value of any subsidiary owned by this company exceeds the subsidiary's security surplus)	\$94,995,288	
Less liabilities	<u>76,509,419</u>	
Adjusted surplus		\$18,485,869
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds	\$15,159,039	
Factor	<u>.02</u>	
Total		\$ 303,180
Compulsory surplus		<u>916,318</u>
Compulsory surplus excess or (deficit)		<u>\$17,569,551</u>
Total Premium	\$ 6,050,684	
Security Surplus Factor	<u>140%</u>	
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)		\$ 1,282,845
Security surplus excess or (deficit)		<u>\$17,203,024</u>

**Equitable Reserve Association
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2000**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1996	1997	1998	1999	2000
Surplus, beginning of year	\$19,283,910	\$19,527,235	\$19,954,182	\$19,884,346	\$19,807,340
Net income	368,241	270,156	330,991	75,436	(477,270)
Change in net unrealized capital gains or (losses)	84,112	86,902	(90,532)	(29,484)	(189,382)
Change in nonadmitted assets and related items	(97,157)	(249,554)	(305,640)	(101,248)	45,960
Change in asset valuation reserve	(63,608)	319,443	(4,655)	(35,990)	126,990
Write-in: Pension Adjustment	(48,263)				
Write-in: Prior Period Adjustment				14,280	
Write-in: Reserve Adjustment					(827,769)
Surplus, end of year	<u>\$19,527,235</u>	<u>\$19,954,182</u>	<u>\$19,884,346</u>	<u>\$19,807,340</u>	<u>\$18,485,869</u>

**Equitable Reserve Association
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2000**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1996	1997	1998	1999	2000
#1	Net change in surplus	1.0%	2.0%	0.0%	-0.0%	-7.0%
#2	Net income to total income	3.0%	2.0%	2.0%	1.0%	-4.0%*
#4	Adequacy of investment income	205.0%	213.0%	195.0%	186.0%	182.0%
#5	Non-admitted to admitted assets	0.0%	0.0%	1.0%	1.0%	1.0%
#6	Total real estate & mortgage loans to cash & invested assets	0.0%	0.0%	0.0%	0.0%	0.0%
#7	Total affiliate investments to surplus	0.0%	0.0%	0.0%	0.0%	0.0%
#8	Surplus relief	0.0%	0.0%	0.0%	0.0%	0.0%
#9	Change in premium	5.0%	-5.0%	57.0%*	-9.0%	-16.0%*

#10	Change in product mix	1.9%	1.1%	9.9%*	8.6%*	1.4%
#11	Change in asset mix	0.1%	0.1%	0.1%	0.1%	0.0%
#12	Change in reserving ratio	-10.0%	3.0%	-10.0%	-1.0%	10.0%

Ratio No. 2 compares net income to total income. The exceptional results for Ratio No. 2 are due to the Net realized capital loss in 2000 of (\$477,270) compared to a Net realized capital gain in 1999 of \$75,436. Ratio No. 9 compares current year premium to prior year premium. The exceptional results are due to an increase in premiums in 1998 and a decrease in premiums in 2000. The increase in premiums for 1998 was due to an annuity exchange program. The program allowed members to receive an interest rate bonus if they exchanged an existing flexible premium for a new flexible deferred annuity. Ratio No. 10 compares the prior year's product mix percentages to the current year's percentages. The exceptional results for this ratio are due to the increase in annuity premiums in 1998 and the decrease in annuity premiums in 1999, while life insurance premiums increased slightly in each year. The result is the percentage of premium by line changed significantly in both years.

Growth of Equitable Reserve Association

Year	Admitted Assets	Liabilities	Members' Surplus
1996	\$91,272,706	\$71,745,471	\$19,527,234
1997	89,297,772	69,343,590	19,954,182
1998	91,368,217	71,483,871	19,884,346
1999	94,513,882	74,706,541	19,807,340
2000	94,995,288	76,509,419	18,485,869

Life Insurance In Force (thousands)

Year	Gross Direct And Assumed	Ceded	Net
1996	\$410,892	\$ 41,527	\$369,365
1997	432,518	49,174	383,344
1998	446,462	54,355	392,107
1999	470,605	57,462	413,143
2000	499,595	63,825	435,770

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred*	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1996	\$88,489	\$103,535	\$21,983	\$97,568	252.1%
1997	86,729	62,383	2,651	100,318	190.7
1998	83,268	57,442	12,405	109,877	215.9
1999	81,665	121,047	15,538	51,827	230.7
2000	76,460	36,030	(3,382)	55,206	114.9

*Includes changes in policy reserves.

Surplus decreased 4.1% during the five-year period under examination. The majority of the surplus decrease occurred in 2000 primarily due to a net loss of (\$477,270) and a reserve adjustment of (\$827,769). The reserve adjustment represents the correction of prior calendar years increases in statutory life insurance reserves Exhibit 8 part A. The company had in 1999 used incorrect factors for various life plans and there were 36 disabled policies that were omitted from 1999 valuation listing but included on the 2000 listing. Life insurance in force increased each year, even though membership has declined by 1,690 or 6.4% since 1996.

Net premiums earned for accident and health decreased each year. The high expense ratio for the accident and health line of business is primarily due to the allocation of

overhead and fixed expense to this small block of business. The reason that the 2000 accident and health commissions incurred was negative is because the society received more in ceding commissions than they paid out in commissions. Accident and health claims were impacted by some adverse experience from a hospital expense plan the society no longer issues. Only two hospital expense policies remain in force. The remainder of the society's accident and health policies are disability income policies.

Reconciliation of Members' Surplus per Examination

There were no adjustments or reclassifications to surplus as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the society are as follows:

1. Page 23 – Schedule D—It is recommended that the company classify its collateral mortgage obligations in Schedule D of future annual statements in accordance with the Securities Valuation Offices' "Valuation of Securities" manual and the NAIC's Annual Statement Instructions – Fraternal.

Action—Compliance

2. Page 23 – Supplemental Contracts Without Life Contingencies—It is recommended that the society put in place the necessary controls and safeguards to ensure that the credited interest rate used for supplemental contracts without life contingencies does not go below the contracted interest rate.

Action—Compliance

Summary of Current Examination Results

Management and Control

While reviewing the board minutes for the period under examination, it was noted the Board does not approve policyholder dividends. According to the company they only approve the changes in the rate for dividends when there is a change, otherwise they do not act on dividends. Approving dividends on an annual basis would provide improved documentation that s.632.62 (4) (b), Wis. Stat., is being complied with. It is recommended that the board approve policyholder dividends on an annual basis in compliance with s. 632.62 (4) (b), Wis. Stat.

Life Insurance Premiums and Annuity Considerations Deferred & Uncollected

Upon review of this balance it was discovered that the amount reported for deferred and uncollected premiums less loading was the same amount that was reported as the loading. The society reported the correct amount for deferred and uncollected with the 2001 third quarter statement. It is recommended that the society report the amount of life deferred and uncollected premiums on future annual statements in accordance with NAIC Annual Statement Instructions.

Reinsurance

The Automatic Group Life Reinsurance Agreement with Business Men's Assurance Company of America was not included in Schedule S - Part 3 - Section 1 of the annual statement. It is recommended that the society include all current reinsurance agreements in Schedule S of the annual statement pursuant to the NAIC Annual Statement Instructions.

The Automatic Umbrella Reinsurance agreement with Business Men's Assurance Company of America had an original effective date of August 1, 1989 and has had several amendments. There was a new agreement with an effective date of July 1, 1999; however, the effective date is still listed on the annual statement as August 1, 1989. On Schedule S Part 2 Business Men's Assurance Company of America was listed as BMA and on Schedule S Part 3 Section 1 Swiss Re Life & Health America, Inc., was listed as Swiss Re America and a location of New York, New York was listed instead of Stamford, Connecticut. According to NAIC Annual Statement Instructions where the name of company and location is specified you should show the full corporate name of the company and the state or country of corporate domicile. It is

recommended that the society report the full corporate name and correct location of its reinsurance companies and the proper effective date of its reinsurance agreements on Schedule S of the annual statement pursuant to NAIC Annual Statement Instructions.

While reviewing the Swiss Re Life & Health America, Inc. contract it was noted that the agreement was originally with Security Benefit Life Insurance Company. On January 16, 1992 North American Reassurance Company assumed the interests and obligations of Security Benefit Life Insurance Company in the Facultative Reinsurance Agreement, between the Equitable Reserve Association and the Security Benefit Life Insurance Company. On June 5, 1995 North American Reassurance Company changed its name to Swiss Re Life & Health America, Inc. The contract that the society has is still in the name of Security Benefit Life Insurance Company. It is recommended that the society get an amendment to the agreement regarding the name change to Swiss Re Life & Health America, Inc.

General Expenses Due & Accrued

During review of the employees' handbook it was noted that employees are allowed to carry over vacation. The society did not accrue a liability for carried over vacation on its annual statement. It is recommended that in accordance with s. Ins. 50.20 (1) (b), Wis. Adm. Code the society accrue for vacation carryover on future annual statements. A surplus adjustment was not made for this report due to immateriality.

Loss Reserves

Based on the independent actuaries' analysis the reserves appear to be reasonably stated. However, there were two items that the actuaries noted as exceptions. The independent actuary's review identified six plans with a total of fourteen policies, which were reported as having no reserves. These were generally joint decreasing term and family income policies. The reserves would be minimal therefore no adjustment will be made for the purposes of this exam. It is recommended that the company establish reserves for those plans of insurance where no reserves are currently being calculated but in fact should have a reserve amount.

In the 2000 Annual Statement the company reported a Surplus Account adjustment of (\$827,769), which was described as a reserve adjustment. During the year-end valuation the

appointed actuary found errors in the prior year's valuation. The errors arose from the incorrect use of factors for various life plans and there were 36 disabled life policies that were omitted from the 1999 valuation listing but included on the 2000 listing. Since this adjustment was a correction of errors from prior statements the amount was charged directly to surplus as is required. The reserve increase for year 2000, which is a part of the summary of operations, was based on the corrected 1999 reserves as is appropriate. It is recommended that the company continue to review its valuation procedures to ensure correct factors are being used and properly applied for the various life plans.

VIII. CONCLUSION

There were no surplus adjustments as a result of this examination. There were recommendations related to policyholder dividend approvals, reporting for life premiums deferred and uncollected, accrual for vacation carryover, reinsurance agreements, and proper completion of Schedule S. Based on the independent actuary's analysis the reserves appear to be reasonably stated. The actuary did have two recommendations that dealt with establishing reserves for plans that currently had no reserves and using correct factors for loss reserving.

Surplus decreased 4.1% during the five-year period under examination, primarily due to a net loss of (\$477,270) and a reserve adjustment of (\$827,769) in the year 2000. The reserve adjustment represents the correction of prior calendar years increases in statutory life insurance reserves Exhibit 8 part A. The company had in 1999 used incorrect factors for various life plans and there were 36 disabled policies that were omitted from 1999 valuation listing but included on the 2000 listing. Life insurance in force increased each year under examination. Membership has declined by 1,690 or 6.4% since 1996.

Net premium earned for accident and health has decreased each year. The high expense ratio for the accident and health line is primarily due to the allocation of overhead and fixed expense to this small block of business.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Management & Control—It is recommended that the board approve policyholder dividends on an annual basis in compliance with s. 632.62 (4) (b), Wis. Stat.
2. Page 24 - Life Insurance Premiums & Annuity Considerations Deferred & Uncollected—It is recommended that the society report the amount of life deferred and uncollected premium on future annual statements in accordance with NAIC Annual Statement Instructions.
3. Page 24 - Reinsurance—It is recommended that the society include all current reinsurance agreements in Schedule S of the annual statement pursuant to the NAIC Annual Statement Instructions.
4. Page 24 - Reinsurance—It is recommended that the society report the full corporate name and correct location of its reinsurance companies and the proper effective date of its reinsurance agreements on Schedule S of the annual statement pursuant to the NAIC Annual Statement Instructions.
5. Page 25 - Reinsurance—It is recommended that the society get a formal amendment regarding the name change to Swiss Re Life & Health America, Inc.
6. Page 25 - General Expenses Due & Accrued—It is recommended that in accordance with s. Ins. 50.20 (1) (b), Wis. Adm. Code the society accrue for vacation carryover on future annual statements
7. Page 25 - Loss Reserves—It is recommended that the company establish reserves for those plans of insurance where no reserves are currently being calculated but in fact should have a reserve amount.
8. Page 26 - Loss Reserves—It is recommended that the company continue to review its valuation procedures to ensure correct factors are being used and properly applied for the various life plans.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Bridgot Quandt	Insurance Financial Examiner
Ryan Hanson	Insurance Financial Examiner
Lori Cretney	Insurance Financial Examiner

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge